COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Bay State Gas Company	**)**	**D.T.E. 02-75**

REPLY BRIEF OF THE

MASSACHUSETTS DIVISION OF ENERGY RESOURCES

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I. INTRODUCTION

Pursuant to the briefing schedule established by the Department of Telecommunications and Energy ("Department") in this proceeding , the Division of Energy Resources ("DOER") submits its Reply Brief in response to the Initial Brief of Bay State Gas Company ("Baystate" or the "Company"). The Company's contention in its Initial Brief that the 10% Contingency is a reasonable and cost-effective way to address grandfatherd customers migrating back to firm default service is unsupported by the record evidence and lacks merit.

II. ARGUMENT

A. Bay State's Ten Percent Contingency Reserve Proposal Fails To Meet Department Standards for Adequacy and Cost.

On pages 22-23 of its Brief, Bay State Gas Company ("the Company") claims the risk of migration back to firm service by grandfathered customers is significant, justifying the need for a ten percent contingency reserve. DOER asserts the record in this proceeding indicates the risk, or probability, of return by these customers to default service is significantly less than that perceived by the Company.

In Ex. AG 1-9, the Company reports it has about 97,000 MMBtu of grandfathered design-day load on its system. In order to plan for the possible return of these customers to default service, the Company has proposed a ten percent capacity reserve or an additional 51,000 MMBtu per day for the winter 2002-2003. Calculating a probability distribution with these

volumes, it appears the Company forecasts a 50% chance of its grandfathered load returning to default service. The record does not support such a forecast.

The Company has had at least 5,000 active meters on transportation service since January 1997.[1] See Ex. Figure BSG IV-1. Further, the Company expects these metered customers to remain on transportation service throughout the remainder of the forecast period -- October, 2007. See Ex. Schedule BSG III-7. Thus, accepting the Company's own forecast, by 2007 the grandfathered customers will have been on transportation service for 10 years. Given this, the application of a 50% probability of return to default service by grandfathered customers (along with their corresponding load) is unsupported by the record and is patently too high. The past history and the expected future of the Company's grandfathered customers lead to no such forecast and indicate a far more reduced risk of return to default service.[2]

If the Department accepts DOER's recommendation to increase the Company's design-day planning standard to that approved for KeySpan or NStar, then an additional 13,000 MMBtu of daily capacity will be on hand for the Company to supply service to any returning grandfathered customers. See Ex. DOER 2-14. DOER believes using this smaller amount of additional capacity yields a better probability percentage than that expected by the Company.

In addition, according to Ex. AG 1-9, the Company reports it has 6.7 Bcf of grandfathered design-season load. If the Department accepts DOER's recommendation to

[1] These 5,000 customers are mostly grandfathered customers and make up the vast majority of the aforementioned design-day load of 97,000 MMBtu. (TR. 53)

[2] DOER recognizes the Company had a large number of customers transporting from January '98 through February '01 which have returned to default service. However, since March '01, the number of customers migrating

increase the Company's design-season planning standard, then an additional 0.6 Bcf of resources will be on hand to supply service to any returning grandfathered customers. See Ex. DOER 2-14. DOER believes using this smaller amount of additional resources yields a better probability percentage than that expected by the Company.

Regarding the need for additional resources due to a potential terrorist attack on energy infrastructure targets, DOER agrees with the Company that such an event is difficult to predict. However, DOER notes the Company will have additional resources to call upon in such a situation if the Department accepts DOER's recommendation for a higher planning standard.

Further, with a higher planning standard, the Company will have additional resources to handle a variety of capacity and supply disruptions as well as the unexpected return of grandfathered load on all days and seasons except during design weather, which is a once in a lifetime occurrence.

DOER notes that, in Ex. DOER 2-14, the Company states a reasonable alternative to its proposed contingency reserve may be to increase its existing planning standards. DOER asserts its alternative to increase the Company's planning standards to those approved by the Department for KeySpan and NStar is reasonable.

III. CONCLUSION

For the reasons stated above and consistent with the arguments in its Initial Brief, DOER recommends that the Department deny the ten percent contingency reserve proposal

back have been insignificant. See Ex. Figure BSG-IV-1.

and direct the Company to develop planning standards more akin to those recently approved by the Department in D.T.E 01-105 and D.T.E. 02-12.

Respectfully submitted,

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